

Department of Finance Canada

2011–12

Departmental Performance Report

Original signed by

James M. Flaherty
Minister of Finance

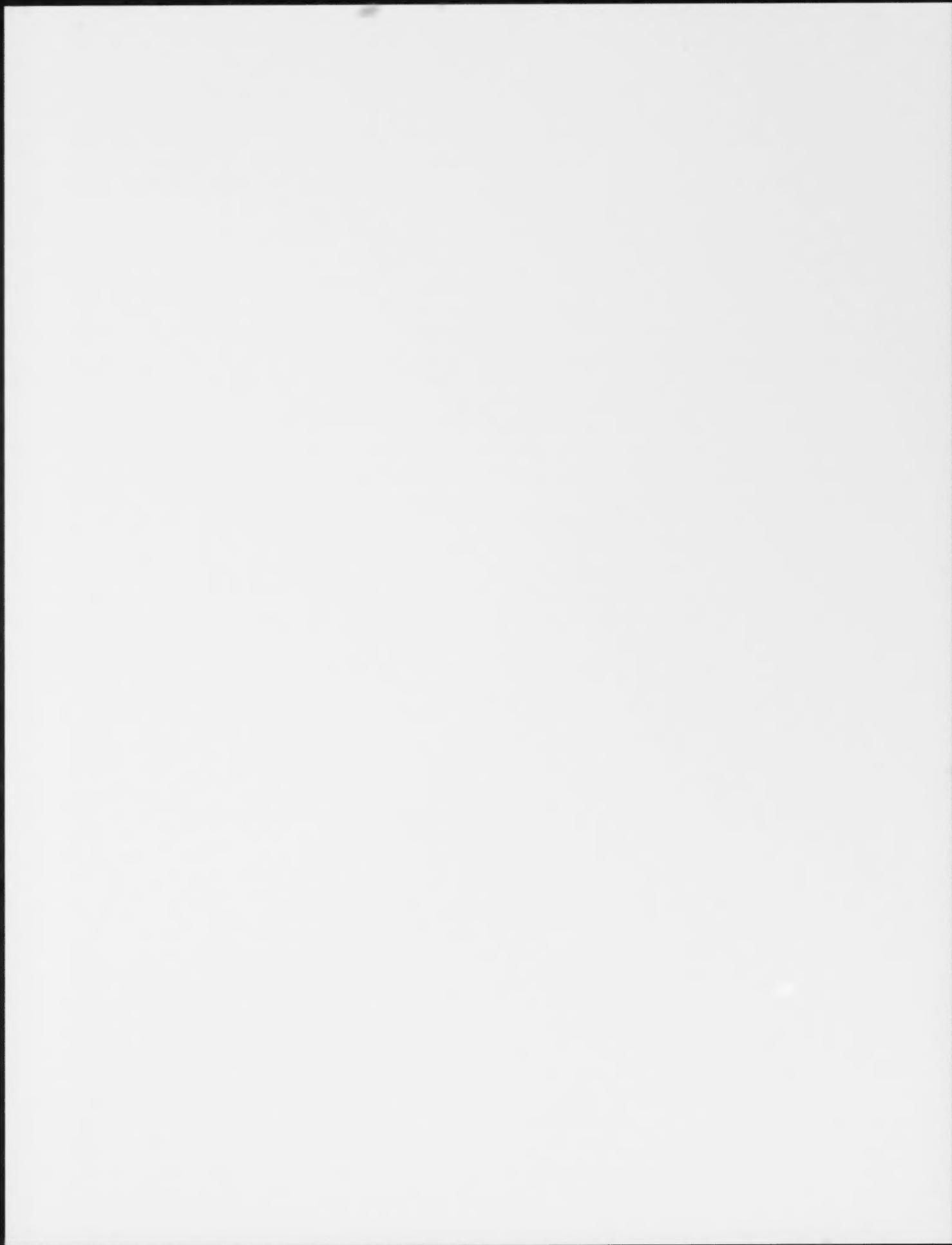
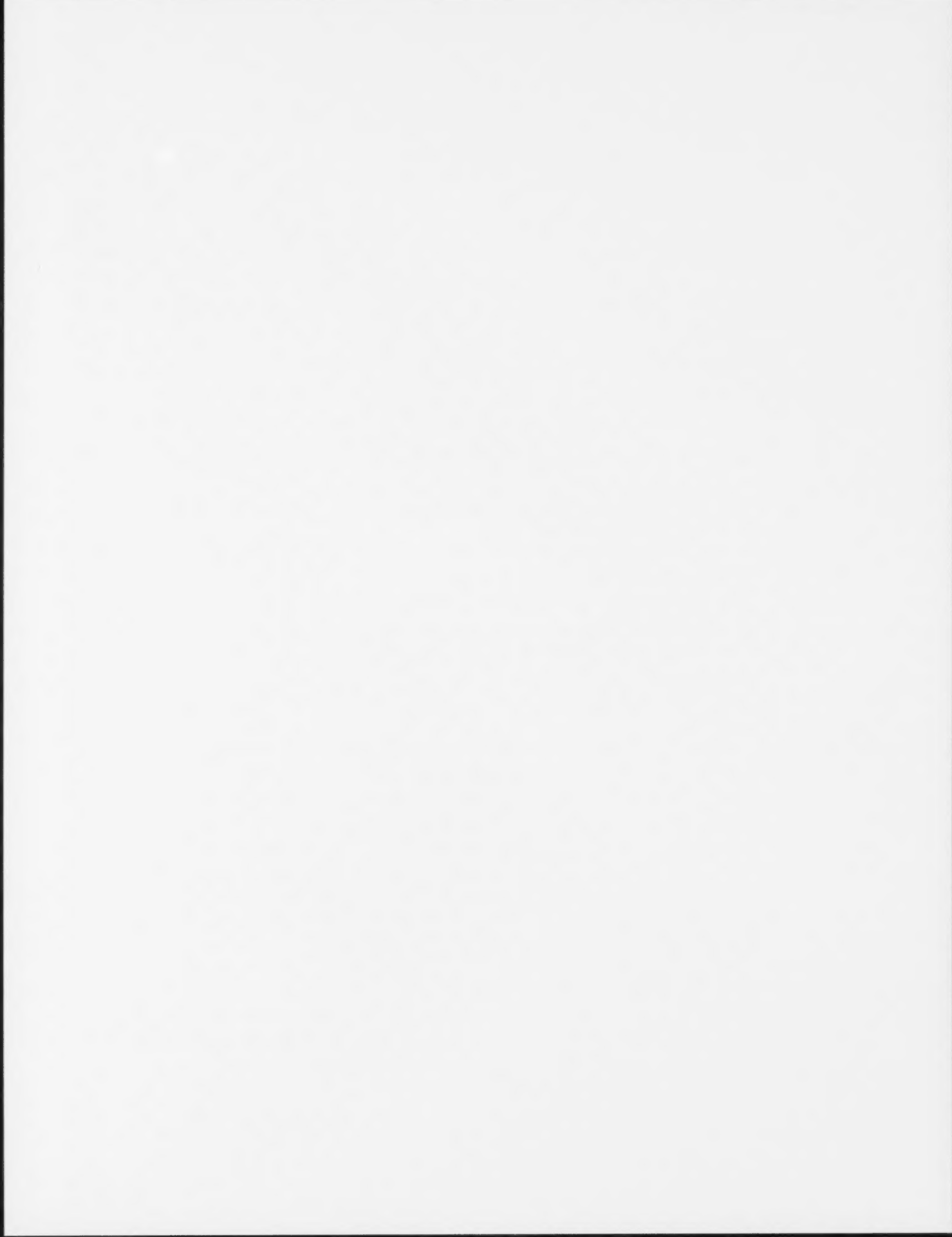


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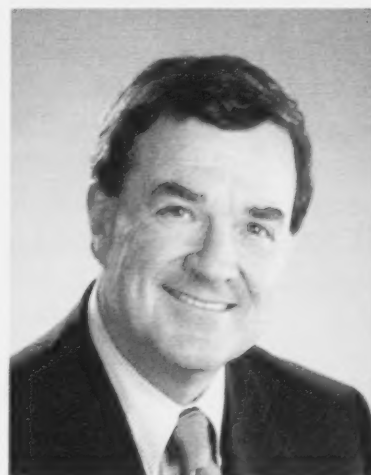
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Minister's Message

I am pleased to present the *2011–12 Departmental Performance Report* for the Department of Finance Canada. This report highlights the Department's achievements in addressing the priorities and performance expectations outlined in the *2011–12 Report on Plans and Priorities*. As presented below, the Department continued to focus on four key priorities in order to support Canada's economy and the quality of life of its citizens.

Sound fiscal management: The overarching goal of the Department for 2011–12 was to return to balanced budgets over the medium term. As of fiscal year 2011–12, the deficit has been cut in half in just two years owing to sound fiscal management. The government's departmental spending review in 2011 will yield ongoing annual savings amounting to \$5.2 billion. As a result of this and other spending restraint measures implemented since 2010, the government is on track to eliminate the deficit over the medium term and to reduce the debt-to-GDP ratio well ahead of the timeline agreed to by the G20 Leaders in Toronto in June 2010.



The Honourable James M. Flaherty

Sustainable economic growth: In 2011–12, the global economic recovery remained fragile and the European sovereign debt and banking crisis continued to weigh on global growth. Among the G7 countries, Canada demonstrated one of the strongest economic growth rates over the recovery, reflecting strong economic fundamentals as well as the significant and timely support provided under the stimulus phase of Canada's Economic Action Plan. The government continued to support jobs and growth and to boost Canada's long-term economic potential by improving conditions for businesses, entrepreneurs and innovators. Although Canadian banks were rated as the soundest in the world by the World Economic Forum for the fifth year in a row, legislative measures were taken to continue to safeguard financial stability and strengthen the Canadian housing sector.

Sound social policy framework: To ensure the retirement security of Canadians, the government placed the Old Age Security and the Guaranteed Income Supplement on a sustainable path; announced that the Chief Actuary had reported that the Canada Pension Plan is sustainable for at least the next 75 years; and provided Canadians, including the self-employed, with a new low-cost option for retirement through the Pooled Registered Pension Plans. Important steps were also taken to strengthen the retirement income system by increasing the Guaranteed Income Supplement for the most vulnerable seniors (announced in Budget 2011), as well as to ensure that Registered Disability Savings Plans continue to meet the needs of people

with severe disabilities and their families (announced in Budget 2012). In addition, the government announced sustainable and predictable growth in funding toward the provision of health care, education and other services for all Canadians through the revised Canada Health Transfer and the Canada Social Transfer.

Effective international influence: Finally, the Department of Finance Canada effectively influenced international decisions through Canada's role as co-chair of the working group for the G20 Framework for Strong, Sustainable and Balanced Growth. Canada led the G20 negotiations to respond to the economic and financial crisis facing the global economy in late 2011. This resulted in the G20 Leaders endorsing the Cannes Action Plan, the drafting of which was led by Canada. This flagship document set out the commitments made by all G20 countries, to ensure the sustainability of the recovery. The Department played a leading role in advancing the financial sector reform agenda and in promoting stronger measures to strengthen global financial stability. The Department also demonstrated Canada's leadership on the world stage by continuing to oppose protectionism, unilaterally eliminating tariffs, and supporting an active trade agenda.

All of these achievements add up to a winning economic performance, and as a result, today, Canada is in a position of relative strength. This economic resilience also reflects the actions taken by the government before the global crisis: lowering taxes, paying down debt, reducing red tape, and promoting free trade and innovation. Going forward, the Department will continue to implement the measures outlined in Budget 2012, a budget that strongly supports Canadians by promoting jobs, growth and long-term prosperity and that will serve Canada well in the years ahead.

Section I: Organizational Overview

Raison d'être

The Department of Finance Canada is committed to making a difference for Canadians by helping the Government of Canada develop and implement strong and sustainable economic, fiscal, tax, social, security, international and financial sector policies and programs. It plays an important role in ensuring that government spending is focused on results and delivers value for taxpayer dollars. The Department interacts extensively with other federal departments and agencies and plays a pivotal role in the analysis and design of public policy across a wide range of issues affecting Canadians.

Responsibilities

The Department of Finance Canada's responsibilities include the following:

- ▶ Preparing the federal budget and the Update of Economic and Fiscal Projections;
- ▶ Developing tax and tariff policy and legislation;
- ▶ Managing federal borrowing on financial markets;
- ▶ Designing and administering major transfers of federal funds to the provinces and territories;
- ▶ Developing financial sector policy and legislation; and
- ▶ Representing Canada in various international financial institutions and groups.

The Department also plays an important central agency role, working with other departments to ensure that the government's agenda is carried out and that ministers are supported with first-rate analysis and advice.

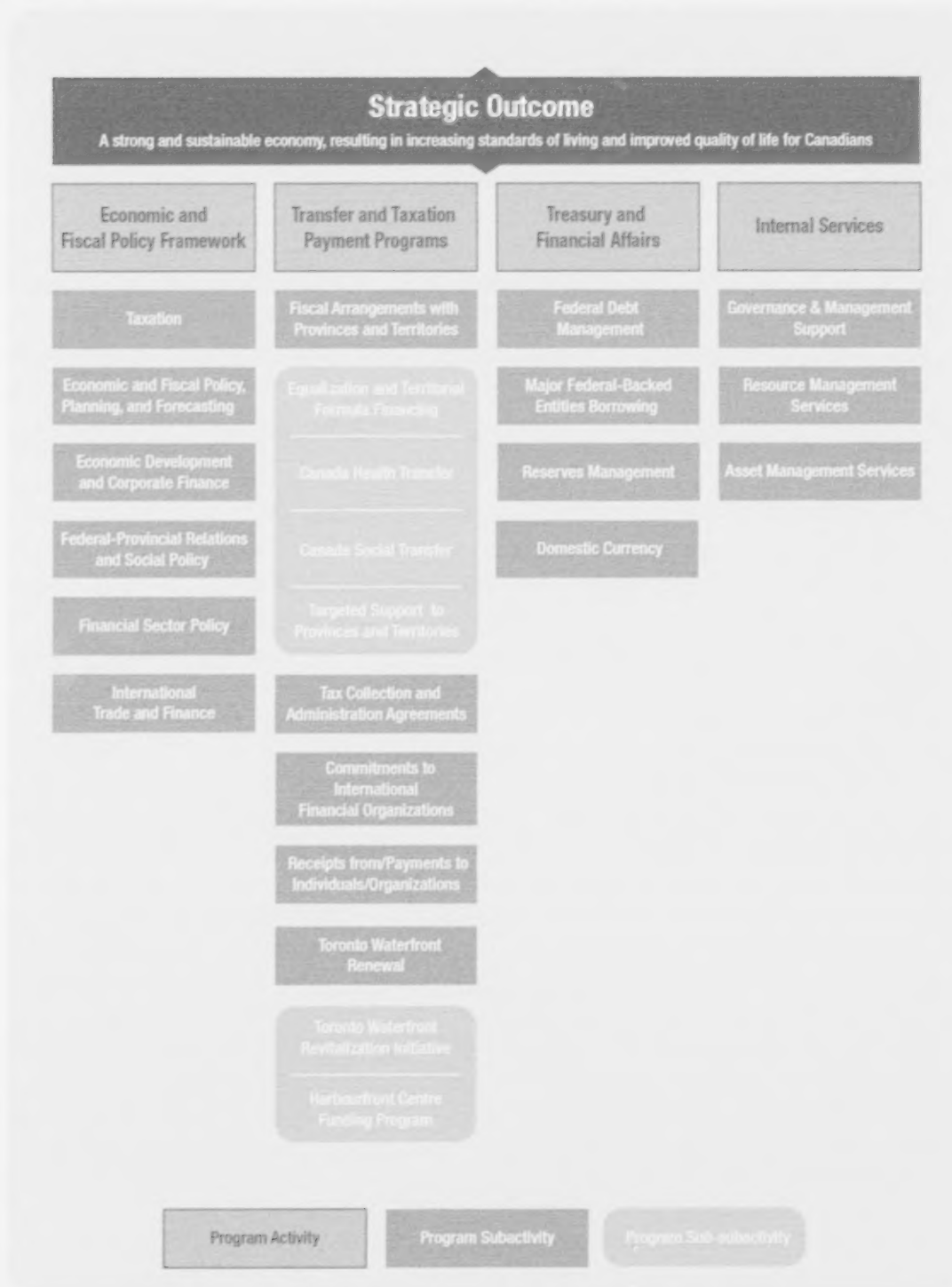
The Minister of Finance is accountable for ensuring that his responsibilities are fulfilled both within his portfolio and with respect to the authorities assigned through legislation.

Strategic Outcome and Program Activity Architecture

The Department of Finance Canada provided effective economic leadership through its clear focus on one strategic outcome:

- ▶ A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

The Department's Program Activity Architecture (PAA) is presented below.



Organizational Priorities

Over the planning period, the Department of Finance Canada's overarching goal was to return to balanced budgets as the economy recovers. In doing so, the Department's efforts focused on five organizational priorities. The first four priorities are operational in nature and focused on improving value for money in the Department's program base. The last priority focused on improving the Department's management practices with respect to financial and human resources management.

Summary of Progress Against Priorities

Priority	Type	Program Activities
Sound Fiscal Management	Ongoing	- PA 1.1: Economic and Fiscal Policy Framework - PA 1.3: Treasury and Financial Affairs
- In 2011–12, the Department of Finance Canada continued to ensure the effective management of the fiscal framework, notably by making progress toward the government's objective to return to balanced budgets as the economy recovers. A comprehensive review of approximately \$75 billion of direct program spending has been conducted by federal departments and agencies, and this resulted in the identification of savings amounting to \$5.2 billion by 2014–15. In addition, Budget 2012 builds on the momentum created in the stimulus phase of Canada's Economic Action Plan by continuing to focus on jobs and growth, while solidifying Canada's long-term fiscal sustainability. - Given the complex interaction between international and domestic economic and policy developments, the Department closely monitored the economic developments in Canada's major trading partners and provided sound advice and analysis to the Minister of Finance on domestic and international economic and fiscal developments. - The Department contributed to the Government of Canada's effective debt and other cost management on behalf of Canadians. In particular, the Department ensured that government borrowing was cost-effective and that treasury management was done in keeping with leading risk management practices. - The Department worked on a number of measures to improve the fairness and integrity of the tax system and to close tax loopholes. These measures were announced in Budget 2012 and included restricting the ability of foreign-based multinational corporations to transfer, or "dump," foreign affiliates into their Canadian subsidiaries, improving the effectiveness of Canada's thin capitalization rules, and tightening rules applicable to Retirement Compensation Arrangements and Employee Profit Sharing Plans.		

Priority	Type	Program Activities
Sustainable Economic Growth	Ongoing	- PA 1.1: Economic and Fiscal Policy Framework - PA 1.2: Transfer and Taxation Payment Programs
- The Department of Finance Canada provided analysis of and advice on proposals from economic departments and agencies; sectoral or regional microeconomic issues in areas such as manufacturing, agriculture, forestry, infrastructure, transport, defence, energy, environment, innovation, small business, resource sector and regional economic development; and the Canadian Public-Private Partnership market. - Despite Canada's relatively strong financial sector performance, the continuing international financial turmoil requires the availability of a broad range of flexible tools to safeguard Canada's financial stability and to address potential problems in financial markets. In that context, the Department contributed to the examination of systemic vulnerabilities in a number of areas, including global sovereign debt, the housing sector and systemically important financial institutions. In particular, legislative and regulatory measures were taken to continue to safeguard financial stability and strengthen the Canadian housing sector. - On January 1, 2012, the final stage of the incremental reduction in the general corporate income tax rate was implemented, bringing the rate to 15 per cent (from 22.12 per cent in 2007), supporting investment and growth in all sectors of the economy. The Department continued its efforts to ensure the competitiveness, efficiency and fairness of the tax system, notably by supporting the government's actions in Budget 2012 to enhance the neutrality of the tax system, reduce the tax compliance burden for business, and close tax loopholes.		

Priority	Type	Program Activities
Sound Social Policy Framework	Ongoing	- PA 1.1: Economic and Fiscal Policy Framework - PA 1.2: Transfer and Taxation Payment Programs
- The federal government provided \$56 billion to the provinces and territories for the Canada Health Transfer, the Canada Social Transfer, Equalization and Territorial Formula Financing, an increase of \$816 million from 2010–11. The Department of Finance Canada maintained productive relationships with the provincial and territorial governments in the administration of the provision of payments to the provinces and territories. Additionally, all payments were made on time and in accordance with legislation, regulations and agreements. The government put health and social transfers on a predictable and sustainable path, for 2014–15 and subsequent years. - The Department provided analysis of, and advice on, the fiscal and economic implications of the government's social policies and programs on a wide range of issues, including the labour market and the immigration and refugee system, the retirement security of Canadians, as well as programs for Aboriginal peoples. - The Department supported the government in responding to feedback received during the review of the Registered Disability Savings Plan (RDSP) in 2011 by developing measures to improve the RDSP. These measures, which were announced in Budget 2012, will help ensure that RDSPs continue to meet the needs of people with severe disabilities and their families.		

Priority	Type	Program Activities
Effective International Influence	Ongoing	- PA 1.1: Economic and Fiscal Policy Framework - PA 1.2: Transfer and Taxation Payments Program
- The Department of Finance Canada contributed to measures that furthered Canada's trade and investment interests and to secure and open borders with the United States, in particular, the development of the Perimeter Security and Economic Competitiveness Action Plan and the U.S.-Canada Regulatory Cooperation Council. With the World Trade Organization Doha Round effectively stalled in 2011, the Department supported the expansion of the government's regional and bilateral trade agenda. - Canada's leadership was advanced in a wide range of forums and international financial institutions, including the G7, the G20, the International Monetary Fund and multilateral development banks. In particular, the Department and its partner agencies worked closely with the international community on the elaboration and implementation of the G20 financial sector reform agenda, with the objective of increasing the resiliency of the global financial sector. With respect to the European sovereign debt crisis, the Department supported Canada's promotion of appropriate policy actions at G7 and G20 discussions and encouraged international partners to take decisive actions to reduce the key risks to the global economy. - In 2011–12, the Department negotiated international tax treaties and tax information exchange agreements to combat tax avoidance and tax evasion. - In addition to the payments made to international organizations, the Department provided technical support and advice on the overall management and priority setting of Canada's international assistance envelope, to support international development. - The Department contributed to the development and adoption of the revised Financial Action Task Force (FATF) recommendations and the international standards on combatting money laundering and the proliferation and financing of terrorism. The revised recommendations were adopted in February 2012. The Department also contributed to the ongoing work of the FATF by identifying high-risk countries that pose a threat to the international financial system because of deficiencies in their anti-money laundering and anti-terrorist financing regimes.		

Priority	Type	Program Activity
Sound and Efficient Financial and Human Resources Management	Ongoing	PA 1.4: Internal Services
- The Department continued to focus on implementing government-wide policies on financial management, including the <i>Policy on Internal Control</i> and the <i>Policy on Investment Planning – Assets and Acquired Services</i>. - Over the course of 2011–12, the Department managed its human resources diligently to maintain a highly skilled workforce and professional expertise. The Department also continued the efforts toward narrowing gaps in representation. - The Department engaged employees in the excellence agenda in an environment of budgetary restraint, and the priorities in its 2011–12 Human Resources Plan were aligned with the Clerk of the Privy Council's Public Service Renewal priorities.		

Risk Analysis

In 2011–12, the global economic recovery remained fragile and the European sovereign debt and banking crisis continued to weigh on global growth. Canada remained resilient despite external weakness, reflecting sustained growth in the domestic economy. In particular, Canada had one of the strongest economic growth rates over the recovery among the G7 countries. This reflects in part the solid risk management measures supported by the Department of Finance Canada, both nationally and internationally, to deal with the uncertain world economic conditions. However, Canada is not immune to external developments and the Department continues to closely monitor the international situation and develop appropriate contingent policy responses.

Through the G7 and G20 forums, the Department also continued to manage the ongoing uncertainty related to the sovereign debt and banking crisis in Europe by playing a lead role in elaborating and ensuring compliance with the G20 Action Plan for Growth and Jobs and the G20 financial sector reform agenda.

The Department managed risks to the economic recovery by ensuring that the necessary infrastructure, resources and authorities needed to respond to challenges are in place. Responsible fiscal management allowing Canada to weather economic challenges should they arise remained a priority. For example, the Department contributed to the government efforts to return to balanced budgets as the economy recovers and ensured effective debt management on behalf of Canadians. To safeguard Canada's financial stability and strengthen the ability to address potential problems in the financial markets as they arise, departmental resources were allocated to the examination of systemic vulnerabilities in a number of areas, including global sovereign debt, the housing sector and systemically important financial institutions. A broad range of legislative and regulatory measures were taken to address identified vulnerabilities.

Success in an uncertain and volatile environment requires the agility and expertise to respond quickly and effectively to risks. The Department effectively assessed and prioritized its operations and continued to have processes in place to ensure the accuracy of budget information and other publications. For example, the Department prepared Budget 2012, a very substantive and complex budget, and delivered on the exit strategy of the stimulus phase of Canada's Economic Action Plan as planned. As well, the Department continued to put in place sound human resources practices while continuously improving operational efficiency. To maintain access to a highly skilled workforce and professional expertise, the Department improved the accuracy of its recruitment and staffing forecasting tool; focused on the collective management of the Executive cadre and employee development, including on-the-job training activities; and fostered a work environment that resulted in high levels of employee engagement.

Summary of Performance

2011–12 Financial Resources (\$ millions)

Planned Spending	Total Authorities*	Actual Spending*
85,657.4	148,377.4	148,153.9
* Excludes amount deemed appropriated to Shared Services Canada.		

2011–12 Human Resources (full-time equivalents [FTEs])

Planned	Actual	Difference
787	802	(15)

Summary of Performance Tables

Progress Toward Strategic Outcome

Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.		
Performance Indicators	Targets	2011–12 Performance
Real gross domestic product (GDP) growth	No target. The goal is to compare favourably with G7 counterparts.	Canada had the second-highest real GDP growth in the G7, at 2.1 per cent.
Unemployment rate	No target. The goal is to compare favourably with G7 counterparts.	Between March 2011 and March 2012, Canada's unemployment rate fell 0.4 percentage points, from 7.6 per cent to 7.2 per cent. Canada currently has the third-lowest unemployment rate in the G7. Moreover, Canada has the highest labour force participation in the G7 and ranks sixth among the 34 countries belonging to the Organisation for Economic Co-operation and Development.
Annual fiscal balance as a share of GDP and debt-to-GDP ratio	No target. The goal is to compare favourably with G7 counterparts.	In 2011, net debt-to-GDP ratio was 33.3 per cent of GDP, by far the lowest in the G7. Canada's fiscal deficit was 4.5 per cent of GDP, the third-lowest in the G7.

Performance Summary, Excluding Internal Services

Program Activity	2010-11 Actual Spending	2011-12 (\$ millions)				Alignment to Government of Canada Outcome
		Main Estimates	Planned Spending	Total Authorities	Actual Spending	
PA 1.1: Economic and Fiscal Policy Framework	88.1	231.4	231.4	100.4	93.0	Strong Economic Growth ⁱ
Canadian Millennium Scholarships Foundation – Deposit of funds to the Consolidated Revenue Fund	(121.3)					
Net Balance	(33.2)					
PA 1.2: Transfer and Taxation Payment Programs	56,298.8	54,981.7	55,002.3	56,847.2	56,634.9	All outcomes ⁱⁱ
PA 1.3: Treasury and Financial Affairs	104,519.7	30,381	30,381	91,370	91,370	Strong Economic Growth ⁱⁱⁱ
Total	160,785.3	85,594.1	85,614.7	148,317.6	148,097.9	

Performance Summary for Internal Services

Program Activity	2010–11 Actual Spending	2011–12 (\$ millions)			
		Main Estimates	Planned Spending	Total Authorities*	Actual Spending*
PA 1.4: Internal Services	50.5	42.7	42.7	59.8	56

* Excludes amount deemed appropriated to Shared Services Canada.

Contribution to the Federal Sustainable Development Strategy

The Federal Sustainable Development Strategy (FSDS) outlines the Government of Canada's commitment to improving the transparency of environmental decision making by articulating its key strategic environmental goals and targets. The Department of Finance Canada ensures that consideration of these outcomes is an integral part of its decision-making processes.

The Department contributes to the following FSDS themes as denoted by the visual identifiers and associated program activities below.



Theme I
Addressing Climate Change
and Air Quality

PA 1.1: Economic and Fiscal Policy Framework



Theme III
Protecting Nature

PA 1.1: Economic and Fiscal Policy Framework



Theme IV
Shrinking the Environmental Footprint -
Beginning with Government

PA 1.4: Internal Services

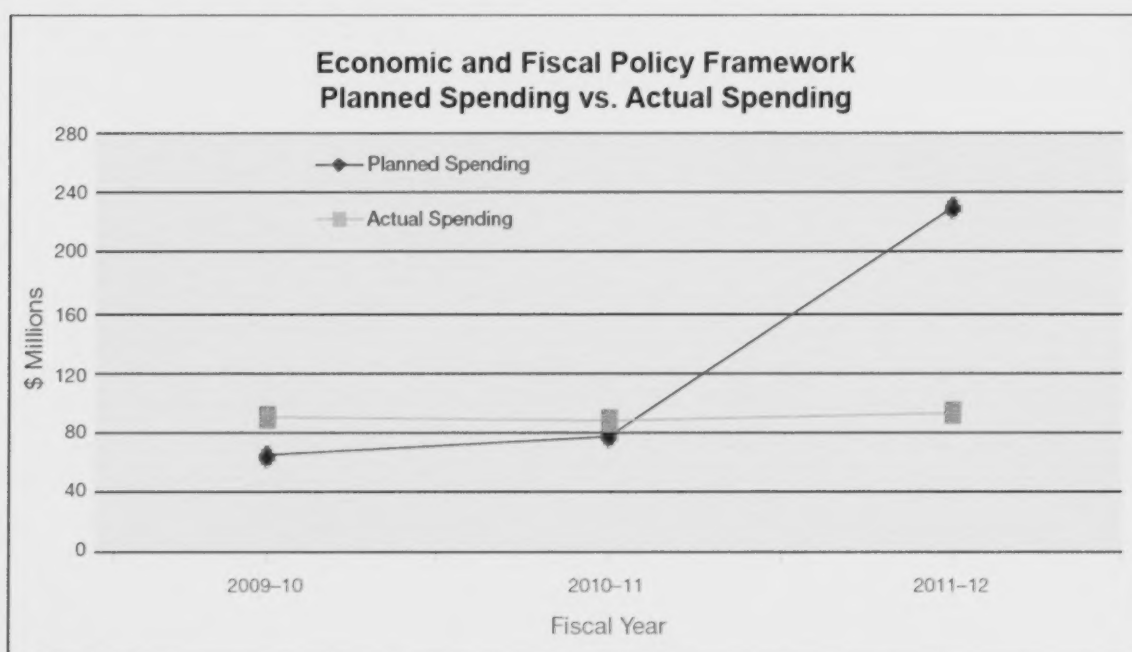
During 2011–12, the Department of Finance Canada considered the environmental effects of initiatives subject to the *Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals*.^{iv} Through the strategic environmental assessment process, some departmental initiatives were found to potentially have positive and/or negative effects on goals and targets in Themes I – Addressing Climate Change and Air Quality, II – Maintaining Water Quality and Availability and III – Protecting Nature, of the FSDS. Further information on the results of strategic environmental assessments is available on the Department's public statements website.^v

For further information on the Department of Finance Canada's activities to support sustainable development and strategic environmental assessments, please visit the departmental website.^{vi} For complete information on the FSDS, please visit the Environment Canada website.^{vii}

Expenditure Profile

The Department of Finance Canada's actual spending in 2011–12 was \$148 billion. The graphs below illustrate the Department's actual spending by program activity compared with planned spending from 2009–10 to 2011–12.

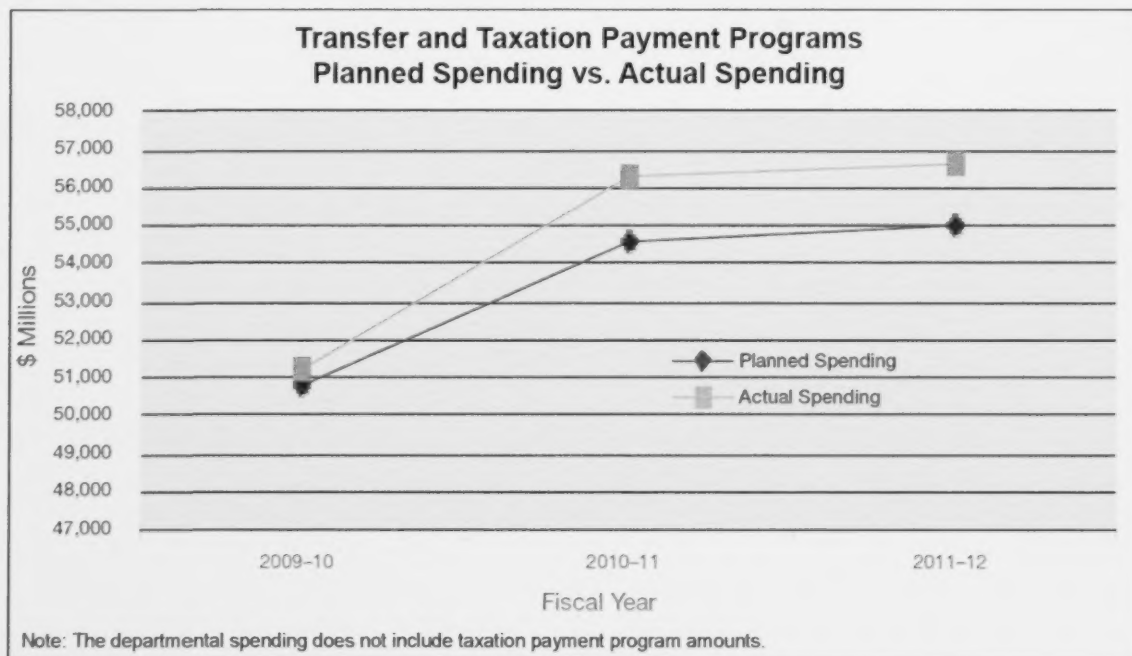
The Economic and Fiscal Policy Framework program activity includes work associated with (a) the establishment of a Canadian Securities Regulation regime and a Canadian Regulatory Authority, (b) the Canadian Securities Regulation Regime Transition Office and (c) departmental operating expenditures and employee benefits.



The main reason that actual spending was below planned spending by \$138 million in 2011–12 was that an amount of \$150 million planned for the establishment of a Canadian Securities Regulation Regime and a Canadian Regulatory Authority was not used. This amount was partially offset by \$9 million in actual expenditures for which funding was received through the Supplementary Estimates process and expenditures on the Canadian Securities Regulation Regime Transition Office that exceeded planned spending by \$3 million.

Actual spending in 2011–12 increased by \$4.9 million compared with 2010–11. This was attributable to a \$3.8 million increase in operating expenditures and employee benefit plans and a \$1.1 million increase in expenditures for the Canadian Securities Regulation Regime Transition Office.

The decrease of \$2.7 million in actual spending from 2009–10 to 2010–11 was attributable to a \$10.6 million decrease in operating expenditures and employee benefit plans, offset by an increase in statutory expenditures of \$7.9 million for the Canadian Securities Regulation Regime Transition Office.

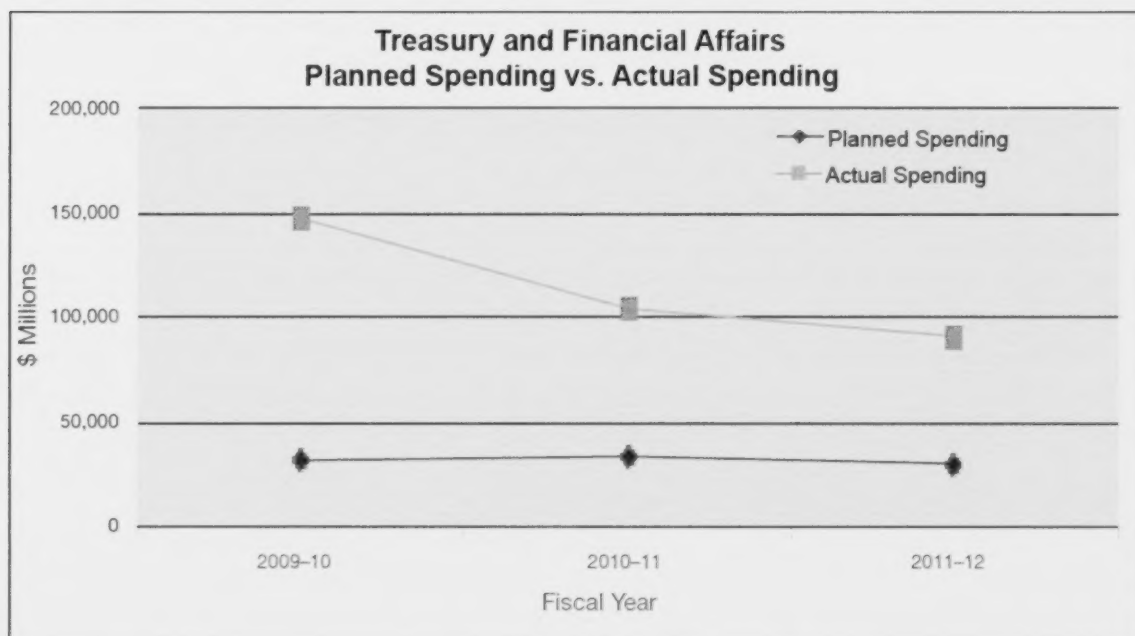


Spending in the Transfer and Taxation Payment Programs program activity includes transfer payments to the provinces and territories and transfers to international financial institutions for the purposes of debt relief, and financial and technical assistance to developing countries. In addition, the program activity also includes the collection and remittance of provincial, territorial and Aboriginal taxes under tax collection and administration agreements.

Actual spending in 2010–11 exceeded planned spending by \$1.6 billion, including \$1.1 billion in transfer payments for which the details were not sufficiently complete to be included in the *2011–12 Report on Plans and Priorities*. The remainder is attributable to a \$0.5 billion increase in non-budgetary expenditures.

Expenditures for the Transfer and Taxation Payment Programs program activity increased by \$0.3 billion in 2011–12. Increases in expenditures for ongoing statutory votes were offset by a \$2.2 billion decrease in payments made to Ontario and British Columbia, related to the harmonized value-added tax framework.

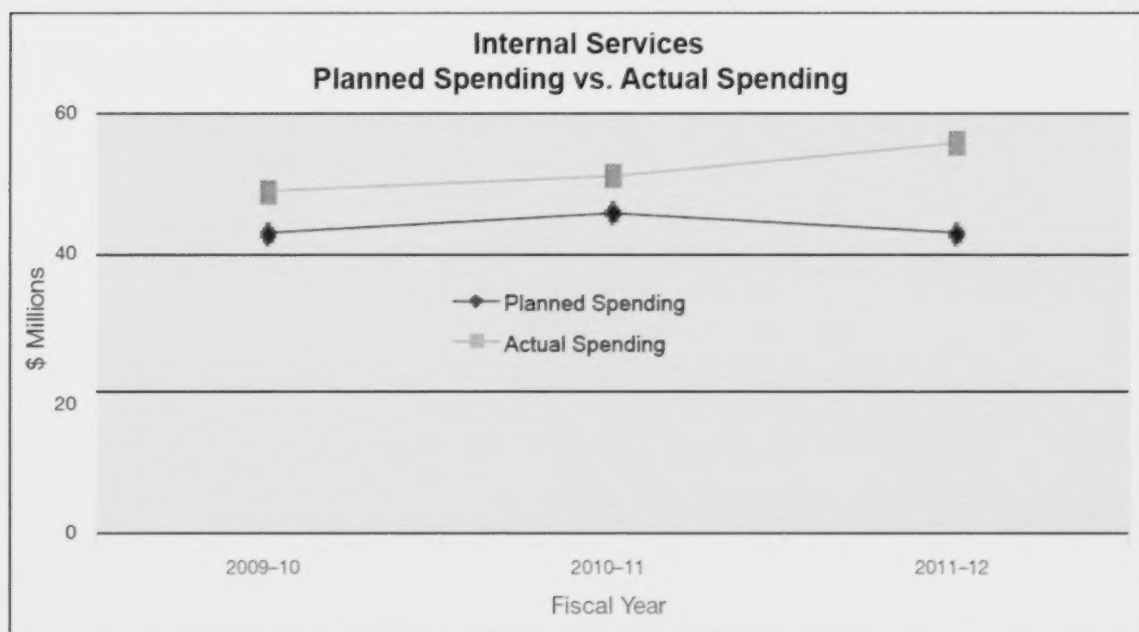
The increase of \$5 billion from 2009–10 to 2010–11 was primarily attributable to \$3.5 billion in increased payments made to Ontario and British Columbia, related to the harmonized value-added tax framework. Increases in ongoing statutory votes accounted for the balance of the increase.



Spending in the Treasury and Financial Affairs program activity includes loans to Crown corporations, interest and other costs related to the public debt, and expenditures related to domestic coinage.

Actual spending in 2011–12 exceeded planned spending by \$61.0 billion. This is almost exclusively attributable to the \$63.4 billion in gross borrowing requirements of Crown corporations not being included in planned spending. The government announced in Budget 2007 that it would meet all the domestic borrowing needs of Farm Credit Canada, the Business Development Bank of Canada, and the Canada Mortgage and Housing Corporation through direct lending in order to reduce overall borrowing and improve the liquidity of the government securities market. Partially offsetting this factor were actual interest and other costs that were \$2.4 billion lower than planned. This difference was attributable to significantly lower interest rates in 2011–12 than were anticipated at the time of the October 2010 Update of Economic and Fiscal Projections.

Expenditures for the Treasury and Financial Affairs program activity decreased by \$13 billion in 2011–12 compared with 2010–11. This was attributable to the reduction in the gross borrowing requirements of Farm Credit Canada, the Business Development Bank of Canada, and the Canada Mortgage and Housing Corporation. This was also the cause for the \$43 billion decrease in expenditures from 2009–10 to 2010–11.



The Internal Services program activity involves a group of related activities and resources that support program activities and other corporate obligations of the Department of Finance Canada.

Actual expenditures exceeded planned spending by \$13 million because of initiatives that were approved through the Supplementary Estimates process.

Expenditures in the Internal Services program activity increased by \$5 million from 2010–11 to 2011–12, to support increased spending for initiatives within other program activities. This was also the cause for the \$2 million increase in actual expenditures from 2009–10 to 2010–11.

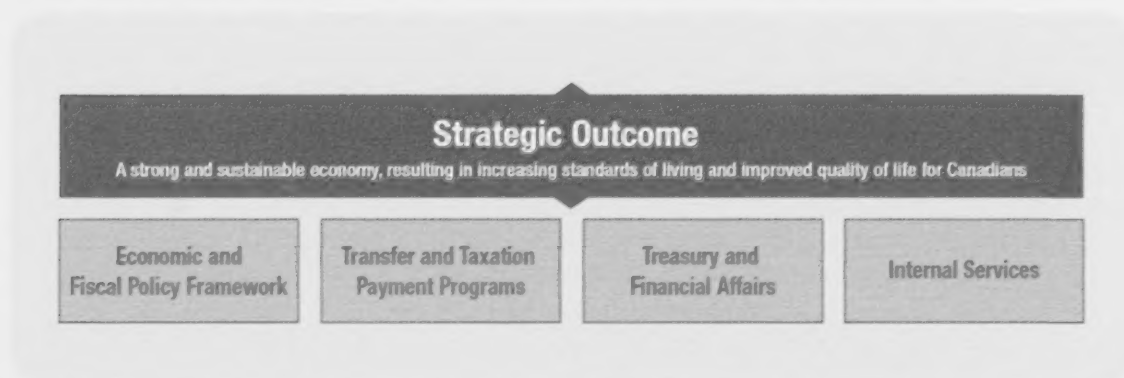
Estimates by Vote

For information on the Department of Finance Canada's organizational Votes and/or statutory expenditures, please see the Public Accounts of Canada 2012 (Volume II) publication. An electronic version of the Public Accounts of Canada 2012 is available on the Public Works and Government Services Canada website.^{viii}

Section II: Analysis of Program Activities by Strategic Outcome

Strategic Outcome

In 2011–12, the Department of Finance Canada provided effective economic leadership, with a clear focus on one strategic outcome, which all program activities support.



This section presents the Department's four program activities, their expected results, performance indicators, actual results, and dedicated financial and non-financial resources. This section also provides details on the Department's achievements.

Program Activity 1.1: Economic and Fiscal Policy Framework

Program Activity Description

This program activity is the primary source of advice and recommendations to the Minister of Finance in exercising his portfolio responsibilities and regarding issues, policies and programs of the Government of Canada related to the areas of economic and social policy, federal-provincial fiscal relations, financial affairs, tax matters, and international trade and finance. The work conducted by this program activity involves extensive research, analysis, and consultation and collaboration with partners in both the public and private sectors to develop a sound and sustainable fiscal and economic framework. It also involves advice and support to the Minister of Finance in exercising his portfolio responsibilities. In addition, it involves the negotiation of agreements and drafting of legislation.

2011-12 Financial Resources (\$ millions)

Planned Spending	Total Authorities	Actual Spending
231.4	100.4	93.0

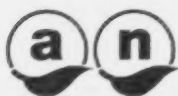
2011-12 Human Resources (full-time equivalents [FTEs])

Planned	Actual	Difference
517	504	13

Program Activity Performance Summary

Expected Results	Performance Indicators	Targets	Actual Results
An economic, social and fiscal framework that supports financial stability, sustainable growth, productivity, competitiveness and economic prosperity	Debt-to-GDP ratio	No target. The goal is to compare favourably with G7 counterparts.	In 2011, Canada's net debt-to-GDP ratio was by far the lowest in the G7. Canada is on track to achieve its G20 commitment to halve deficits by 2013 and stabilize or reduce total government debt-to-GDP ratios by 2016.
	Competitiveness and efficiency of Canada's tax system	No target. The goal is to continue to propose changes to the tax system that improve incentives to work, save and invest.	As evidenced by the various tax measures announced in Budget 2012, the Department of Finance Canada supported the government's actions to enhance the neutrality of the tax system, to support growth and encourage investment to flow to its most productive uses. The Department contributed to the efforts to improve the competitive position of job-creating businesses by reducing their tax compliance burden. In addition, the Department supported the government's actions to improve tax fairness and integrity, which helps keep taxes competitive and low, thereby improving incentives to work, save and invest in Canada.

Expected Results	Performance Indicators	Targets	Actual Results
	Stability of financial services sector	No target. The long-term goal is to contribute to low and stable interest rates.	In 2011–12, the Department fostered a strong and effective financial regulatory and supervisory framework, robust financial institutions and markets, and a competitive environment in order to facilitate access to financing, thereby contributing to low and stable interest rates. The Canadian financial services sector remained stable and continued to perform effectively. Credit growth continued to develop, and Canadian banks were rated as the soundest in the world by the World Economic Forum for the fifth year in a row.



Performance Summary and Analysis of Program Activity^{1,ix}

The Department of Finance Canada continued to fulfill its central agency role by providing briefings and analysis to the Minister of Finance and other senior officials on domestic and international economic and fiscal developments. These briefings and analysis informed the development of all aspects of macroeconomic policy for which the Department is responsible, including tax policy, regulation of the mortgage and broader financial sectors, federal-provincial relations, and the government's overall revenue and expenditures policies as contained in the federal budgets.

Supporting sound economic growth and fiscal management

The Department of Finance Canada continued to conduct transparent, timely and accurate fiscal planning. In 2011–12, the Department was responsible for the preparation of the June 2011 Budget (entitled *The Next Phase of Canada's Economic Action Plan: A Low-Tax Plan for Jobs and Growth*), the November 2011 Update of Economic and Fiscal Projections, the March 2012

¹ Measures within this program activity contribute to Themes I – Addressing Climate Change and Air Quality and III – Protecting Nature of the Federal Sustainable Development Strategy (FSDS). These measures are the accelerated capital cost allowance for clean energy generation equipment, the Green Levy on certain fuel inefficient passenger vehicles, the Public Transit Tax Credit, and the Ecological Gifts Program. For details on the Department of Finance Canada's activities to support sustainable development, please visit the departmental website.

Budget (entitled *Jobs, Growth and Long-Term Prosperity: Economic Action Plan 2012*), the monthly publication of the *Fiscal Monitor*, and the release of the Annual Financial Report of the Government of Canada and the Fiscal Reference Tables in October 2011. The Department undertook three surveys of private sector forecasters to obtain their views on the Canadian economy.

Budgets 2011 and 2012 marked progress toward achieving the Department's overarching priority of returning to balanced budgets as the economy recovers. Budget 2011 announced an expenditure review of departmental spending to support this objective. A comprehensive review of approximately \$75 billion of direct program spending was conducted by federal departments and agencies, which will yield ongoing annual savings of \$5.2 billion. As well, Budget 2012 announced the results of the review of program spending, which are currently being implemented. As part of the budget preparation process, the Department provided sound advice to government organizations on funding requests, in line with the government's objective of returning to balanced budgets as the economy recovers.

With respect to the stimulus phase of Canada's Economic Action Plan, the final report to Canadians was published in Budget 2012 and marked the conclusion of the stimulus phase of the Plan. Budget 2012 builds on the momentum created in the stimulus phase of Canada's Economic Action Plan by continuing to focus on jobs and growth, while solidifying Canada's long-term fiscal sustainability. More precisely, this budget included important steps to ensure the sustainability of public finances while focusing on the drivers of growth and job creation, with an ongoing commitment to keep taxes low, which is central to the government's long-term action plan.

Given the complex interaction between international and domestic economic and policy developments, the Department closely monitored the economic developments in Canada's major trading partners, particularly the United States. Monitoring and analysis of the economic and financial situation in Europe has also been increased. In addition, the Department took a lead role in facilitating the economic surveillance of Canada, carried out annually by the Organisation for Economic Co-operation and Development and the International Monetary Fund.

The Department continued to undertake a leadership role in the ongoing Corporate Asset Management Review. The Review assesses selected federal corporate assets, to improve their efficiency and effectiveness and to ensure that government resources are focused on the priorities of Canadians.

Improving tax competitiveness, efficiency and fairness

On January 1, 2012, the final stage of the incremental reduction in the general corporate income tax rate was implemented, bringing the federal general corporate income tax rate to 15 per cent. This substantial reduction in the corporate income tax rate, from 22.12 per cent in 2007, creates a significant economic advantage for Canada. Lower taxes support businesses by increasing the expected rate of return on investment and reducing the cost of capital. Reductions in corporate taxes thereby increase incentives for businesses to invest in new equipment, undertake innovative research, and continue to create jobs in Canada.

In addition to implementing business tax cuts to boost productivity and economic growth, actions were taken to improve specific structural elements of the tax system. By improving the following specific structural elements, the tax system functions more fairly and efficiently, imposes less of a compliance burden on taxpayers, and better supports economic growth objectives while ensuring that revenues continue to be generated to support government priorities.

With respect to corporate groups, Budget 2012 reaffirmed the government's intention to consider whether changes to the taxation of corporate groups in Canada could improve the functioning of the tax system. As part of this process, the Department of Finance Canada will continue its discussions with stakeholders, including the provinces and territories. If a new system of group taxation should be proposed as a result of this exercise, stakeholders will be consulted again on the specific design of the new system.

The Department worked on a number of measures to improve the fairness and integrity of the tax system and close tax loopholes. These measures were announced in Budget 2012 and included the following:

- ▶ Restrictions in the ability of foreign-based multinational corporations to transfer, or “dump,” foreign affiliates into their Canadian subsidiaries (with a view to creating tax-deductible interest or distributing cash free of withholding tax, without providing any economic benefit to Canada), while preserving the ability of foreign multinationals to engage in legitimate expansions of their Canadian businesses.
- ▶ Improvements to the effectiveness of Canada's thin capitalization rules, which seek to prevent Canadian corporate profits from being distributed to certain non-resident shareholders free of Canadian income tax by way of interest payments on excessive debt.

The Department also supported the introduction of Budget 2012 improvements to the rules for Retirement Compensation Arrangements, to prevent unintended tax benefits. In addition, the Department followed up on consultations on Employee Profit Sharing Plans (EPSPs) by working on Budget 2012 measures to prevent EPSPs from being used by some businesses to generate unintended tax benefits.

The Department worked on a number of measures in support of the government's efforts to reduce the administrative burden that businesses face in complying with their tax obligations, including a doubling of the Goods and Services Tax / Harmonized Sales Tax (GST/HST), streamlined accounting thresholds, a simplified administration for partnerships, and improvements to the rules for paying eligible dividends.

In response to the October 2011 recommendations of the Expert Review Panel on Research and Development, the Department supported the government's efforts to streamline and improve the Scientific Research and Experimental Development tax incentive program, making the program simpler as well as more cost-effective and predictable. The savings generated by these actions will be invested in direct support programs that will reinforce business innovation in Canada.

Efforts were also made toward rationalizing fossil fuel subsidies, reducing tax distortions, and improving the allocation of investment and capital within the Canadian economy by phasing out tax preferences for resource industries. Specifically, measures were taken to phase out the Atlantic Investment Tax Credit for activities related to the oil and gas and mining sectors, and to phase out the Corporate Mineral Exploration and Development Tax Credit. The phase-out of these tax incentives supports the 2006 Advantage Canada goal of enhancing overall economic growth by making the tax system more neutral across sectors so that the private sector directs investment toward its most productive uses.

Additionally, the Department negotiated international tax treaties and tax information exchange agreements to combat tax avoidance and tax evasion. For example, income tax treaties with Italy and Turkey and a protocol amending the income tax treaty with Switzerland were brought into force. Protocols amending income tax treaties with Austria, Barbados and Singapore were signed, and income tax treaty negotiations were initiated with Hong Kong, Israel and the United Kingdom. Moreover, 12 tax information exchange agreements (TIEAs) were brought into force (Anguilla, Bahamas, Bermuda, Cayman Islands, Dominica, Guernsey, Isle of Man, Jersey, San Marino, St. Kitts and Nevis, St. Vincent and the Grenadines, and Turks and Caicos); 2 other TIEAs (Aruba and Costa Rica) were signed; and TIEA negotiations with five other jurisdictions (Antigua and Barbuda, Grenada, Montserrat, Panama and Uruguay) were announced.

Supporting the government's economic agenda

In 2011–12, the Department of Finance Canada provided analysis and advice on proposals from economic departments and agencies; sectoral or regional microeconomic issues in areas such as manufacturing, agriculture, forestry, infrastructure, transport, defence, energy, environment, innovation, small business, resource sector, regional economic development; and the Canadian Public-Private Partnership market.

With respect to innovation, it is widely recognized that Canada's long-term prosperity in a knowledge economy requires globally competitive businesses that innovate and create high-quality jobs. In that context, the Department contributed to the development of the government's new approach to supporting private-sector innovation. In particular, Budget 2012 announced \$1.1 billion over five years in direct support for research and development and \$500 million for venture capital.

The natural resources sector is an important source of employment and economic growth in Canada. However, Canadian businesses in the resource sector must navigate a maze of overlapping and complex regulatory requirements and red tape. The Department contributed to the introduction in Budget 2012 of measures to make the project review process more predictable and timely, reduce duplication and regulatory burden, strengthen environmental protection, and enhance consultations with Aboriginal peoples.

Ensuring accessibility, sustainability and effectiveness of federal transfers and social programs

The government continues to ensure that transfers to other levels of government grow in a manner that is affordable and sustainable and reflects taxpayers' ability to pay. In December 2011, a future growth path was set for transfers to provinces and territories to provide sustainable and predictable funding in support of the provision of health care, education, and other programs and services for all Canadians. The 6 per cent annual escalator of the Canada Health Transfer will continue for five more years. Starting in 2017–18, the Canada Health Transfer will grow in line with a three-year moving average of nominal Gross Domestic Product (GDP) growth, with funding guaranteed to increase by at least 3 per cent per year. The Canada Social Transfer will continue to grow at its current rate of 3 per cent annually in 2014–15 and subsequent years.

In 2011–12, the Department of Finance Canada continued to engage with provincial and territorial officials, with the objective of completing the review of the technical aspects of Equalization and Territorial Formula Financing in time for their renewal in 2014–15.

Supporting a sound social policy framework

In the context of changing demographics and ongoing uncertainty surrounding the global and domestic economic outlooks, it is important that social programs remain accessible, sustainable and effective for Canadians. In collaboration with other federal organizations, the Department of Finance Canada provided advice on, and analysis of, the fiscal and economic implications of the government's social policies and programs on a wide range of issues, including the labour market, immigration, pensions and Aboriginal programs.

With respect to the labour market and immigration, the Department contributed to the targeted changes to the Employment Insurance (EI) program, to make it a more efficient program that promotes job creation, removes disincentives to work, supports unemployed Canadians and quickly connects people with jobs. This includes the extension of the EI hiring credit for small businesses, funding for the Youth Employment Strategy, and the ThirdQuarter project that helps older workers. The Department also worked on measures to focus the immigration and refugee system on Canada's labour market needs. In addition, the Department supported national and Web-based consultations to further improve the EI rate-setting mechanism. In response to the consultations, Budget 2012 announced a 5 per cent limit on EI premium rate increases until the EI Operating Account is in balance, following which a new rate-setting mechanism will be implemented to ensure stable and predictable future EI premium rates.

The Department collaborated with other federal organizations and the provinces and territories to ensure the retirement security of Canadians, notably through steps taken to strengthen the Canada Pension Plan, the Old Age Security program, and the establishment of Pooled Registered Pension Plans.

Concerning the Canada Pension Plan (CPP), the Department worked with provincial and territorial officials through the CPP Committee, whose work led to the 2010–12 CPP Triennial Review changes. As part of the Triennial Review, the CPP Committee also worked on a number of technical amendments to the CPP legislation and to the CPP Investment Board Regulations, announced in Budget 2012. Also, the financial sustainability of the CPP, as reported by the Chief Actuary, was confirmed for at least the next 75 years at the current contribution rate of 9.9 per cent of pensionable earnings.

Further, as part of Budget 2012, legislation has been proposed to raise the age of eligibility for the Old Age Security (OAS) program and Guaranteed Income Supplement (GIS) benefits gradually from 65 to 67 starting in April 2023. The Department worked in collaboration with the Department of Human Resources and Skills Development Canada and the Office of the Superintendent of Financial Institutions Canada on the OAS changes.

At the December 2010 Finance Ministers' Meeting, the Minister of Finance and his provincial and territorial colleagues agreed on a framework for defined contribution Pooled Registered Pension Plans (PRPPs), to help Canadians, including the self-employed, meet their retirement needs by providing access to a new, low-cost pension option. Subsequently, the Pooled Registered Pension Plans Act was tabled in Parliament on November 17, 2011. The Department is committed to the goal of fully implementing the supporting regulations and tax rules by the end of 2012. Considering that the provinces will need to introduce their own enabling legislation to make PRPPs available across Canada, a high level of harmonization of the regulations across jurisdictions will be instrumental in increasing the availability of PRPPs and achieving lower costs.

To strengthen financial literacy, the government introduced a Financial Literacy Leader Act to allow for the appointment of a Financial Literacy Leader to exercise national leadership toward strengthening financial literacy in Canada and to help ensure that Canadians better understand the ever-increasing complexity of financial products and saving vehicles. The Act will also expand the responsibilities of the Financial Consumer Agency of Canada to include collaborating and coordinating with stakeholders, to contribute to and support initiatives to strengthen the financial literacy of Canadians.

With respect to the Registered Disability Savings Plan (RDSP), the Department supported the government in responding to feedback received during the review of the RDSP in 2011 by developing measures to improve the RDSP. These measures, announced in Budget 2012, will help ensure that RDSPs continue to meet the needs of people with severe disabilities and their families.

Improving efficiency and effectiveness of the financial system

In its 2012–13 Global Competitiveness Report released in September 2012, the World Economic Forum has recognized the Canadian banking system as the soundest in the world for the fifth year in a row. Canada's success in financial regulation and supervision was also confirmed by the results of the peer review assessment of Canada conducted by the Financial Stability Board in 2011. To maintain this advantage, the Department of Finance Canada worked on a number of initiatives, both nationally and internationally, to foster confidence and support stable, efficient and competitive financial institutions and markets.

Significant progress was made in implementing the G20 financial sector reform agenda, including addressing issues concerning systemically important financial institutions. The Department continued to track and examine systemic vulnerabilities with the Bank of Canada, the Office of the Superintendent of Financial Institutions Canada, the Canada Deposit Insurance

Corporation, and the Financial Consumer Agency of Canada. This included ongoing tracking of risks related to global sovereign debt, global current account imbalances and the Canadian housing sector, with contingency plans developed to mitigate risks. In addition, the resolution frameworks for large banks and insurance companies continued to be examined, with a view to strengthening such frameworks to further mitigate risk.

Following the Supreme Court of Canada's determination on the proposed Canadian Securities Act in December 2011, the Department consulted with the provinces and territories and a number of them reaffirmed their interest in working cooperatively toward a common securities regulator.

To refine the existing financial sector framework, the Department undertook substantial policy work on the five-year review of the regulatory framework for federally regulated financial institutions, from both a consumer protection and a financial stability perspective, protecting Parliament's jurisdiction over banking. The five-year review of the financial institutions legislation was completed with the enactment of Bill S-5, which received royal assent on March 29, 2012.

The Department developed a legislative framework to formalize mortgage insurance arrangements with private mortgage insurers and the Canada Mortgage and Housing Corporation (CMHC), including the rules for government-backed insured mortgages. These measures helped strengthen the government's oversight of the mortgage insurance industry. The Department also worked on legislative amendments to further strengthen and safeguard the financial sector. Among these amendments were changes to enhance the governance and oversight framework for CMHC to ensure its commercial activities are managed in a manner that promotes the stability of the financial system, contributing to the stability of the housing market and benefiting all Canadians.

The Department continued to work to ensure access to financing for individuals and businesses. Budget 2012 introduced a legislative framework for covered bonds, to be administered by CMHC, which will support financial stability by helping lenders find new sources of funding and by making the market for Canadian covered bonds more robust. The legislation received royal assent in June 2012 and will be implemented by CMHC in fall 2012.

The Task Force for the Payments System Review released its final report in March 2012. The Department is committed to establish a consultative committee of public and private sector representatives to discuss emerging payments system issues, extend the application of the *Code of Conduct for the Credit and Debit Card Industry in Canada* to mobile payments, and review the governance framework for the payments sector.

The Department worked on enhancing Canada's anti-money laundering and anti-terrorist financing policy and laws in partnership with the organizations involved in Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime. Specifically, the Department issued two consultation papers, in November and December 2011, outlining proposed measures to strengthen Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime.

Internationally, the Department contributed to the development and adoption of the revised Financial Action Task Force (FATF) recommendations and the international standards on combatting money laundering and the proliferation and financing of terrorism. The revised recommendations were adopted in February 2012. Similarly, the Department contributed to the ongoing work of the FATF in identifying high-risk jurisdictions that pose a threat to the international financial system because of deficiencies in their anti-money laundering and anti-terrorist financing regimes, and coordinated with the Office of the Superintendent of Financial Institutions Canada and the Financial Transactions Reports Analysis Centre of Canada in alerting federally regulated financial institutions and reporting entities to these threats. The Department also worked in collaboration with the regional anti-money laundering and anti-terrorist financing bodies in the Caribbean, the Asia-Pacific region and South America.

Supporting global finance and trade environment

Considering the uncertainties that prevailed in the global economy and the European sovereign debt and banking crisis, the Department of Finance Canada's capacity to monitor macroeconomic developments was substantially enhanced in 2011–12 and new monitoring tools were developed to distribute intelligence to senior officials across the government. Areas of focus in 2011–12 have included analyzing developments in global capital markets and emerging sovereign debt pressures, European monetary policy, and the European banking sector, and assessing progress of peripheral countries supported by International Monetary Fund programs. This has allowed Canada to promote appropriate policy actions at G7 and G20 discussions and has encouraged international partners to take decisive actions to reduce the key risks to the global economy.

As co-chair of the G20 Framework Working Group for Strong, Sustainable and Balanced Growth, Canada led the consultation and negotiation commitments from G20 countries to address short-term risks and vulnerabilities. Significant progress was made on the G20 Framework process in 2011–12. Canada drafted an Action Plan that was endorsed by the G20 leaders at the Cannes Summit in November 2011—a key deliverable for the Summit. The Department also contributed to the G20 working group's reports on the role and governance of the International Monetary Fund, including the organization's role in promoting a strong and stable international monetary system.

With respect to trade and investments, the Department contributed to the development of the Perimeter Security and Economic Competitiveness Action Plan and the U.S.-Canada Regulatory Cooperation Council. With the World Trade Organization Doha Round effectively stalled in 2011, the Department supported the expansion of the government's regional and bilateral trade agenda, most notably negotiations with European Union countries on a Comprehensive Economic and Trade Agreement. The Department also continued to lead on financial services in trade negotiations, including Foreign Investment Promotion and Protection Agreements. In addition the Department continued to implement tariff elimination measures through the preparation of revised regulations and budgetary measures that enhance the competitiveness of Canadian industries.

Lessons Learned

Strengthening and modernizing the budget process

Budget 2012 was very substantive and complex. Despite the breadth of this document, the budget process ran smoothly, owing to careful coordination within the Department of Finance Canada and with other central agencies. Looking ahead, the Department will continue to enhance the use of technology and tools to further improve the budget process.

Monitoring of financial market activities and global economic risks

The daily monitoring of financial market activities and global risks and participation in related assessment of financial market developments was extremely important in 2011–12. Therefore, continued development of new methods to enhance the control and management of these risks, such as the prudential liquidity plan, which safeguards the government's ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed, will be important in the future.

The ongoing and elevated risk emanating from the European sovereign debt crisis underscored the importance of high-level engagement and dialogue at international forums. As a mid-sized country, pro-active engagement with international partners, particularly at the G7 and G20, has enabled Canada to influence the global agenda and maintain pressure for appropriate policy action to mitigate risks. The fluctuating nature of the European sovereign debt crisis also underscored the importance of redeploying resources to quickly analyze and respond to complex economic developments and emerging risks. Strengthened analytical capacity has been key in ensuring that the Minister and senior officials are well briefed and effectively promote Canada's position through international forums and media.

Supreme Court determination on the establishment of a Canadian securities regulator

As part of the initiative to establish a Canadian securities regulator, in May 2010 the government referred the proposed Canadian Securities Act to the Supreme Court of Canada for an opinion on whether Parliament has the constitutional authority to enact the proposed legislation. On December 22, 2011, the Supreme Court determined that the proposed Act as drafted was not constitutionally valid under the general branch of the federal power to regulate trade and commerce. Having contingency plans in place and established working relationships with internal and external counsel allowed the Department of Finance Canada to quickly assess the legal and policy implications of the Supreme Court's determination and provide the Minister of Finance with analysis and advice without delay. Despite having contingency plans in place, further analysis on the potential that the Act be declared ultra vires would have allowed for a better understanding of the uncertainties resulting from such a determination.

Program Activity 1.2: Transfer and Taxation Payment Programs**Program Activity Description**

This program activity administers transfer and taxation payments to provinces and territories, and taxation payments to Aboriginal governments. In accordance with legislation and negotiated agreements, the Department of Finance Canada provides fiscal equalization and support for health and social programs and other shared national priorities. The program activity also covers commitments and agreements with international financial institutions aimed at aiding the economic advancement of developing countries.

2011–12 Financial Resources (\$ millions)

Planned Spending	Total Authorities	Actual Spending
55,002.3	56,847.2	56,634.9
Note: The departmental spending does not include taxation payment program amounts.		

2011–12 Human Resources (full-time equivalents [FTEs])*

Planned	Actual	Difference
—	—	—
* Full-time equivalents are not reflected in this program activity.		

Program Activity Performance Summary

Expected Results	Performance Indicators	Targets	Actual Results
Design and administration of the provision of payments to Canadian provinces and territories in support of providing their residents with public services, and to international organizations to help promote the economic advancement of developing countries.	Regulations amended to reflect changes made to the Equalization program in Budget legislation.	According to statutory requirements, or as determined by environment.	No regulatory changes were required in 2011–12.
	Timely provision of information for Government of Canada reports.	No target, as materials are generated on an as-needed basis according to the environment.	The Department of Finance Canada responded to information requests in a timely and comprehensive manner.
	Percentage of reporting requirements met, including reporting to Parliament, the Office of the Auditor General of Canada, internal auditors, the International Monetary Fund and the Organisation for Economic Co-operation and Development, etc.	100 per cent of requests fulfilled on time and in an accurate manner.	100 per cent of requests fulfilled on time and in an accurate manner.

Performance Summary and Analysis of Program Activity

Fiscal arrangements with provinces and territories

The Department of Finance Canada continued to play a central role in the design and administration of payments made to the provinces and territories in support of the provision of health care, education, and other programs and services for all Canadians. In 2011–12, the federal government provided \$56 billion to the provinces and territories for the Canada Health Transfer, the Canada Social Transfer, Equalization and Territorial Formula Financing, an increase of \$816 million from 2010–11. All payments were made on time and in compliance with legislation and regulations.

In addition to the above-mentioned transfers, targeted support payments were made to some provinces to ensure that the total major transfers are not lower than the level of 2010–11. The Department continued to build technical capacity to improve the delivery of the transfer and taxation payment programs. Improvements to models have allowed the Department to

respond to information requests on the computation of transfer payments in a timely and transparent manner. The Department has started using secure, Web-based presentations in addition to traditional conference calls and has also put in place the capacity to share confidential information on a secure, federal-provincial-territorial website.

Improving tax agreements with provinces, territories and Aboriginal governments

The Department of Finance Canada worked with provinces and territories to improve and enhance the application and administration of the Tax Collection Agreements (TCAs), including work with the parties to the agreements to complete a review of the TCAs and work with the Office of the Auditor General of Canada on the annual audit of payments made under the agreements.

The Department carried out negotiations with the Government of Quebec, concluding with the signing of a Canada-Quebec Comprehensive Integrated Tax Coordination Agreement (CITCA). The Department also worked with the Government of British Columbia to facilitate its exit from the Harmonized Sales Tax. In particular, transition rules were designed to ensure a smooth and efficient return to the provincial sales tax.

The Department continued working with the Canada Revenue Agency, the Canada Border Services Agency and Statistics Canada to follow through on implementing the harmonized value-added tax framework.

With respect to Tax Administration Agreements, the Department participated in more than 10 negotiation tables and entered into two new agreements. Sales tax arrangements between provinces and Indian bands were also facilitated, notably in Manitoba and Saskatchewan. Reviews of the First Nations Goods and Services Tax Administration Agreements and the First Nations Personal Income Tax Administration Agreements were completed, and changes were made to simplify the agreements and decrease administrative burden.

Supporting international development

During this reporting period, the Department of Finance Canada advised on the overall management and priority setting of Canada's international assistance envelope, ensuring that Canada's resources are deployed effectively and accountably to achieve meaningful and sustainable results in developing countries. This included providing analysis and advice on major policy issues for Cabinet discussions related to international portfolios at the Canadian International Development Agency, Foreign Affairs and International Trade Canada, and the International Development Research Centre, and supporting reporting exercises—for example, the Report to Parliament on the Government of Canada's Official Development Assistance. In

addition, the Department also assumed a leadership role through the G20 to launch an innovative approach to food security, namely AgResults.

The Department also supported Canada's leadership role at major multilateral development banks by providing these institutions with advice and by following through on commitments for recapitalization and replenishment. This funding serves to advance Canada's influence within the institutions and the geographic regions in which they operate, and supports their efforts to reduce global poverty.

In compliance with legislative requirements, the Minister of Finance tabled in Parliament reports on the European Bank for Reconstruction and Development, the International Monetary Fund and the World Bank.

Toronto waterfront renewal

With respect to the Toronto Waterfront Renewal Initiative, the completion of the remaining federally funded projects is scheduled for 2012–13 and the administrative windup of the program will be completed no later than March 31, 2014. Given the impending end of the program, a number of projects were closed out during the fiscal year and two new, final federal contribution agreements were signed for the Underpass Park Construction Phase 2 project and the Queens Quay Boulevard Revitalization Phase 2 project. The federal government provided \$20 million in funding during the 2011–12 fiscal year.

Harbourfront Centre received and spent the full complement of its annual funding under the Harbourfront Centre Funding Program, using the funding to cover its operational costs. Given this support, the Harbourfront Centre remained open to the public and carried out its mandate to provide continued access to cultural, educational and recreational activities.

Lessons Learned

Improving the transfer payment programs

Although steps have been taken to increase the transparency of decisions and technical knowledge regarding federal transfer programs, the complexity of the transfer payment system continues to be a challenge vis à vis provincial-territorial engagement. The Department of Finance Canada will continue to enhance its efforts to work collaboratively with provincial and territorial counterparts on issues related to transfer renewal and will consult when changes are proposed to the transfer system.

Program Activity 1.3: Treasury and Financial Affairs

Program Activity Description

This program activity provides direction for Canada's debt management activities, including the funding of interest costs for the debt and service costs for new borrowing. In addition, it manages investments in financial assets needed to establish a prudent liquidity position. This program activity supports the ongoing refinancing of government debt coming to maturity, the execution of the budget plan, and other financial operations of the government, including governance of the borrowing activities of major government-backed entities, such as Crown corporations. This program activity is also responsible for the system of circulating Canadian currency (bank notes and coins) to meet the needs of the economy.

2011–12 Financial Resources (\$ millions)

Planned Spending	Total Authorities	Actual Spending
30,381	91,370	91,370

2011–12 Human Resources (full-time equivalents [FTEs])

Planned	Actual	Difference
25	25	—

Program Activity Performance Summary

Expected Results	Performance Indicators	Targets	Actual Results
Prudent and cost-effective management of the government's treasury activities and financial affairs.	Achievement of operational and strategic objectives.	100 per cent of program line targets are achieved.	100 per cent of program line targets were achieved.
	Control of financial and operational risks.	Risk events do not disrupt program operations.	Risk events did not disrupt program operations.

Performance Summary and Analysis of Program Activity

Supporting the management of treasury and financial affairs

Through its work in managing treasury and financial affairs, the Department of Finance Canada contributed to the Government of Canada's effective debt and other cost management on behalf of Canadians. The Department ensured that government borrowing is cost-effective and that

treasury management is in keeping with leading risk management practices. There were no disruptions to program operations arising as a result of financial and operational risk events.

Funding for government financial and debt management operations was sufficient and provided in a timely and cost-effective manner. All cash requirements, including those of major federal government-backed entities, were met on time. In addition to the implementation of the medium-term debt management strategy, steps have been taken to implement the new prudential liquidity plan. Liquid foreign exchange reserves have been increased by approximately US\$10 billion, exceeding the minimum target level of 3 per cent of nominal gross domestic product established under the strategy. Moreover, the Department worked closely with the Crown corporations and other federal organizations involved in borrowing and lending activities, backed by the full faith and credit of the government. The cost of borrowing for Crown corporations was in line with the government's cost of borrowing.

Through an effective system of circulating Canadian currency, the Department continued to contribute to efficient trade and commerce across Canada. Steps have been taken to modernize the currency system and protect against counterfeiting, including the provision of funding through Budget 2012 in support of the Royal Canadian Mounted Police's enforcement activities under the National Counterfeit Enforcement Strategy. The Department also supported the Bank of Canada in the introduction of a new series of bank notes. These bank notes have increased security features and are printed on a polymer material, which lasts significantly longer than the current cotton-based paper, therefore reducing production costs and the impact on the environment. Furthermore, the Department renewed its three-year memorandum of understanding with the Royal Canadian Mint for the procurement and distribution of domestic circulation coinage and worked with the organization to identify savings and efficiencies through initiatives such as changing the composition of the \$1 and \$2 coins and the elimination of the penny.

Lessons Learned

Through the prudential liquidity plan, the government has taken steps to safeguard its ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed. This also supports investor confidence in the Government of Canada debt markets. In developing and communicating the plan, the Department of Finance Canada found that many other jurisdictions, including other sovereign states and other government entities in Canada, were interested in developing similar contingency plans. Engaging in early discussions with other government treasuries on risk planning could promote better linkages and overall contingency planning.

For government financing operations, some of the objectives of the Department are to ensure the effective cost of borrowing for Crown corporations and to be able to provide advice on governance arrangements and the scope of these organizations' activities. These objectives were successfully met in 2011–12 through ongoing dialogue and regular exchanges with Crown corporations' representatives and departmental officials. Continued dialogue and information exchange through such initiatives as the annual meeting of Crown corporations' chief financial officers and senior departmental officials proved invaluable in the achievement of these objectives.

With respect to the federal debt management program, the Office of the Auditor General of Canada (OAG) released its performance audit of the management of Canada's interest-bearing debt in April 2012. The focus of the audit was on debt management practices, processes and reporting. While recommending some improvements to the Department's debt management reports, communication, and marketing tools, the OAG found that the Department has a sound decision-making system to support and develop effective market debt strategies.



Program Activity 1.4: Internal Services

Program Activity Description

This program activity enables the Department of Finance Canada to deliver its management agenda through related activities and resources that support the needs of departmental programs and the organization's corporate obligations. The 11 groups of internal services are Management and Oversight Services, Communications Services, Legal Services, Human Resources Management Services, Financial Management Services, Information Management Services, Information Technology Services, Real Property Services, Materiel Services, Acquisition Services, and Other Administrative Services.

2011–12 Financial Resources (\$ millions)

Planned Spending	Total Authorities*	Actual Spending*
42.7	59.8	56
* Excludes amount deemed appropriated to Shared Services Canada.		

2011–12 Human Resources (full-time equivalents [FTEs])

Planned	Actual	Difference
245	273	(28)

Performance Summary and Analysis of Program Activity

Sound and efficient human resources management

The main objective of the Department of Finance Canada's 2011–12 Human Resources Plan was to engage employees in the excellence agenda in an environment of budgetary restraint. The three priorities under this objective were aligned with the Clerk of the Privy Council's Public Service Renewal priorities, as follows:

1. Maintain a highly qualified and representative workforce.
2. Ensure continuous employee learning and development while using employee skills and talents as judiciously as possible.
3. Reinforce the workforce to contribute to the well-being of employees, which will improve the development of opinions related to policy and service delivery.

Over the course of 2011–12, the Department managed its human resources diligently to maintain a highly skilled and diversified workforce and professional expertise. For example:

- ▶ All vacant positions identified in staffing plans were filled and succession employees were placed in vacant positions within six months 90 per cent of the time.
- ▶ Through a combination of development opportunities and an engaging workplace, the retention rate remained above 96 per cent.
- ▶ The representation gap for Aboriginal peoples and persons with disabilities decreased.
- ▶ The performance management program for non-executive employees was reviewed and improved to ensure a common performance management approach across the Department. A new rating structure, including new terminology and definitions, was introduced for non-employees, and guidance was developed to assist supervisors and employees in maximizing performance.

The Department's employee development programs covering 45 per cent of the Department's population were recognized and cited by the Clerk of the Privy Council, on his website, as contributing to engaging employees in the excellence agenda.

Refining the planning process, management of risks and performance measurement

The Department of Finance Canada continued to refine its integrated planning process. This included streamlined tools to gather information, targeted business planning sessions to further engage managers, and strengthened integration of departmental business and human resources planning with a more user-friendly Integrated Business Plan incorporating the Corporate Human Resources Plan and the associated Recruitment and Staffing Strategy.

Enhanced performance measurement and risk management activities were undertaken to support effective departmental performance and reporting. This included a focus on medium and high-level risks throughout the planning process as well as development of departmental and Branch risk registers to track changes and monitor progress. The Department also continued to refine its performance measurement in support of program management, decision making and reporting.

The Department also continued to foster a common understanding of its risk management approach across the organization by fully implementing the communication strategy contained in its Corporate Risk Profile. This included tool kits, examples and case studies, and learning sessions for both managers and employees. The Department also took advantage of opportunities to share its best practices with other departments and agencies through speaking engagements and exhibits at interdepartmental risk management forums and through follow-up advice and tools shared with interested organizations.

Strengthening IM and IT and ensuring alignment with departmental plans and priorities

Given the nature of the Department's work, investments have been made to improve information technology services and security. Steps were taken to ensure appropriate security safeguards and ready the Department for the implementation of a dual information technology network environment.

To support departmental plans and priorities, the IM and IT Strategic Plan is being revised to cover a three-year period from 2012 to 2014. The objective of this strategic plan is to position the Department in moving toward a digital information management environment and to comply with the Treasury Board *Directive on Recordkeeping*.

Although the investigation of alternative methods of IT service provision has been completed, the implementation of the results of this investigation in departmental systems is pending considering the transition with Shared Services Canada (SSC). The Department continued to work with SSC to ensure a successful transition with respect to the transfer of resources and responsibilities.

Implementing government-wide policies on financial management

In 2011–12, the Department of Finance Canada remained committed to the implementation of government-wide policies on financial management. Progress has been made in the following areas:

- ▶ Work continued on the *Policy on Internal Control*. The annual assessment of the design and operational effectiveness of internal controls was completed, and the department addressed significant points from prior assessments.

- ▶ The Department complied with the new quarterly financial reporting requirements and published all financial reports in conformance with required timelines and consistent with presentation and disclosure requirements.
- ▶ For the first time, the Department finalized a complete set of future-oriented financial statements as part of the *2012–13 Report on Plans and Priorities*. The statements were completed on time and consistent with the Treasury Board of Canada Secretariat's requirements.
- ▶ In conformance with the *Policy on Investment Planning – Assets and Acquired Services*, the Department prepared an investment plan that provides a five-year strategic outlook (2012 to 2017) on the planning and management of its assets, acquired services and projects.

Supporting departmental initiatives

Legal officers offered advisory, drafting and litigation services in support of departmental initiatives. In particular, they supported the preparation of Budget 2012 and its implementation legislation, advised the Department of Finance Canada on the path ahead following the Supreme Court of Canada's determination on the proposed Canadian Securities Act, and contributed to the advancement of tax initiatives and improvements to the administration of various tax agreements with provinces, territories and Aboriginal governments. Legal officers also supported the Department's legislative efforts to safeguard financial stability and strengthen the Canadian housing sector, as well as the preparation of Bill C-25, the Pooled Registered Pension Plans Act, which was tabled on November 17, 2011.

Under the commitments made in the *2011–12 Report on Plans and Priorities*, the Department worked on the following initiatives:

- ▶ A new *Department of Finance Code of Conduct* came into force on April 2, 2012, fulfilling a statutory requirement and complementing the new *Values and Ethics Code for the Public Sector*.
- ▶ Sound management of Access to Information and Privacy (ATIP) requests was strongly promoted. The Access to Information and Privacy Division was able to maintain a high (91.5 per cent) "on-time" response rate to Access to Information requests despite an overall caseload increase of 202 files. The quality of responses to ATIP requests also remained high, as evidenced by having only 10 complaints lodged with the Office of the Information Commissioner of Canada. This represents only 3.5 per cent of the requests closed by ATIP during 2011–12.

- ▶ The 2012–15 risk-based audit plan, which outlined the audits planned for 2012–13, was approved in March 2012. The Department's five-year rolling evaluation plan for 2012 to 2017 was also approved in March 2012. Of particular note, the Department's Management Accountability Framework rating for the Evaluation area of management has increased from acceptable to strong.

The Department of Finance Canada is a participant in the Federal Sustainable Development Strategy (FSDS) and contributes to the Greening Government Operations targets through the Internal Services program activity. The Department contributes to the following target areas of Theme IV (Shrinking the Environmental Footprint – Beginning with Government) of the FSDS:

- ▶ Green Procurement;
- ▶ E-waste;
- ▶ Printing Units;
- ▶ Paper Consumption; and
- ▶ Green Meetings.

For additional details on the Department's Greening Government Operations activities, please see the List of Supplementary Information Tables in Section III.

Lessons Learned

2011–12 Management Accountability Framework

In 2011–12, the results of the Management Accountability Framework (MAF) under the People Management component of MAF confirmed the Department of Finance Canada's success in this area. However, the MAF assessment identified opportunities for improving certain sub-indicators, particularly Diversity and Employment Equity relative to the representation of Aboriginal peoples and persons with disabilities. An employment equity and diversity action plan has been developed and is being implemented.

Considering the opportunities for improvement identified for Information Management in the final MAF 2011–12 assessment and the importance of this area of management for the Department, Information Management has been identified as a key organizational priority for fiscal year 2012–13, including a focus on a three-year information management/information technology (IM/IT) strategic plan.

Public Service Employee Survey 2011

The 2011 Public Services Employee Survey (PSES) results were released on February 2, 2012. Overall results for the Department of Finance Canada were very positive and have generally improved compared with the previous survey in 2008. They are also generally higher than those of the public service. The analysis of the results suggested improvements can be made in certain areas such as availability of training to do the job, work-life balance and career development. The Department is preparing an action plan, in consultation with employees, to address opportunities for improvement and to find ways to build on successes.

Impacts on Financial and Human Resources Resulting from the Establishment of Shared Services Canada

2011–12 Financial Resources		
(\$ millions)		
	Planned Spending	Total Authorities*
Net transfer post Orders in Council (OIC)** to Shared Services Canada (SSC)	1.2	1.2
2011–12 Human Resources		
	Planned	Actual
Deemed to SSC	2	2
* Pursuant to section 31.1 of the <i>Financial Administration Act</i> and Orders in Council P.C. 2011-0881, P.C. 2011-0877 and P.C. 2011-1297, this amount was deemed to have been appropriated to SSC, which resulted in a reduction in the appropriation for the Department of Finance Canada. ** Total authorities, as presented in the "2011–12 Financial Resources" table (and other relevant tables) in the "Summary of Performance" section, is the net of any transfers to SSC. Actual spending does not include expenditures incurred on behalf of SSC as of the OIC date.		

Section III: Supplementary Information

Financial Highlights

Condensed Statement of Financial Position (Unaudited) As at March 31, 2012 (\$ thousands)			
	Change %	2011–12	2010–11
Total net liabilities	+6	643,099,149	605,198,504
Total net financial assets	+5	162,158,154	154,526,056
Departmental net debt	+7	480,940,995	450,672,448
Total non-financial assets	+5	161,198	153,438
Departmental net financial position	+7	(480,779,797)	(450,519,010)
Condensed Statement of Operations and Departmental Net Financial Position (Unaudited) For the Year Ended March 31, 2012 (\$ thousands)			
	Change %	2011–12	2010–11
Total expenses	+3	83,236,070	81,101,810
Total revenues	—	185	0
Net cost of operations before government funding and transfers	+3	83,237,503	81,104,703
Departmental net financial position	+7	(480,779,797)	(450,519,010)

Financial Statements

The Department of Finance Canada's Financial Statements (unaudited) for the year ended March 31, 2012, can be found on the Department's Planning and Performance website.^x

List of Supplementary Information Tables

Electronic supplementary information tables listed in the *2011–12 Departmental Performance Report* can be found on the Department of Finance Canada's website.^{xi}

- ▶ Details on Transfer Payment Programs
- ▶ Greening Government Operations
- ▶ Horizontal Initiatives
- ▶ Internal Audits and Evaluations
- ▶ Response to Parliamentary Committees and External Audits
- ▶ Sources of Respendable and Non-Respendable Revenue

Section IV: Other Items of Interest

Organizational Contact Information

Contacts for further information and websites:

Home page: <http://www.fin.gc.ca>

Email messages for the Minister of Finance, the Honourable James M. Flaherty, PC, MP:
jflaherty@fin.gc.ca

Comments or questions regarding the information on the Department of Finance Canada's website:

Consultations and Communications Branch
Department of Finance Canada
140 O'Connor Street
Ottawa ON K1A 0G5

Telephone: 613-992-1753
Email: consultcomm@fin.gc.ca

Endnotes

- i. Descriptors for Government of Canada Outcome Areas, <http://publiservice.tbs-sct.gc.ca/ppg-cpr/descript-eng.aspx#bm01>
- ii. Descriptors for Government of Canada Outcome Areas, <http://publiservice.tbs-sct.gc.ca/ppg-cpr/descript-eng.aspx>
- iii. Descriptors for Government of Canada Outcome Areas, <http://publiservice.tbs-sct.gc.ca/ppg-cpr/descript-eng.aspx#bm01>
- iv. *Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals*, <http://www.ceaa.gc.ca/default.asp?lang=En&n=B3186435-1>
- v. Public Statements Regarding Environmental Effects, http://www.fin.gc.ca/activty/pubs/sea_1-eng.asp
- vi. Department of Finance Canada, <http://fin.gc.ca/purl/susdev-eng.asp?wb48617274=3CCCFA78>
- vii. Environment Canada, <http://www.ec.gc.ca/dd-sd/default.asp?lang=En&n=C2844D2D-1>
- viii. *Public Accounts of Canada 2012* (Volume II), <http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html>
- ix. Sustainable Development Strategy, <http://www.fin.gc.ca/purl/susdev-eng.asp>
- x. Planning and Performance, <http://www.fin.gc.ca/afc/pp-pr-eng.asp>
- xi. Department of Finance Canada, <http://www.fin.gc.ca/pub/dpr-rmr/2012/st-ts-eng.asp>